From: Joseph Kelly [jkelly@starcreditunion.com]
Sent: Monday, March 16, 2009 5:01 PM
To: _Regulatory Comments
Subject: Comments on Advanced Notice of Proposed Rulemaking for Part 704

My name is Joseph Kelly, the CEO of S.T.A.R. Community Credit Union – Charter # 61359 located in Chico, CA. I have some comments I wish to offer on the role corporate credit unions play in the credit union system.
My credit union has been in business for over 50 years and we purposely limit the use of our corporate credit union relationship to solely clearing our member's share drafts and incidental related services (incoming / outgoing wires, ACH, overnight investments and limited borrowings to meet occasional liquidity needs when necessary). We do not use our corporate for any investments other than transitory overnight investment of surplus balances pending their placement into government insured instruments. Experience has taught me that I can effectively manage our credit unions investment portfolio earning more than that offered by our corporate counterparts with less risk by establishing relationships with brokerage firms specializing in offering insured instruments to the natural person credit union industry. I have recently pondered how my credit union with only $25 million of assets and an $11 million investment portfolio can out-perform a multi-billion dollar corporate and currently reflect a unrealized gain in our security portfolio of $135,000. I am confident the investment managers at the corporate level let greed and desire for larger spreads compromise their better judgment which permitted them to violate a cardinal rule in the management credit union member's money – they sacrificed safety and liquidity seeking yield. Comparing the natural person credit union industry to the corporate credit union industry; we do not see the investment portfolio's of natural person credit unions being the cause of widespread failure unless they were heavily invested in the uninsured investments offered by their corporate and it were allowed to fail. The debacle of US Central (and likely several others) have demonstrated the investment authority granted corporate credit unions has significantly and profoundly distinguished the corporate credit union industry from the 'natural person' credit union industry. This difference is so vast in its scope that I believe if the corporate credit unions are permitted to continue with the authority they have been granted they must be bifurcated from the natural person credit union industry and treated as a separate and distinct class of financial institution and treated accordingly. The risk they take is unique, the criteria upon which they are regulated and examined is unique from that of the natural person credit union industry and they should be recognized and identified as such. Their unique risk should not be pooled nor compared against the risk a natural person credit union assumes when it makes a consumer loan to one of its members to purchase a vehicle or finances the addition of a room to their home – the thought of comparing these two types of risk is absurd and it makes no sense for two vastly different institutions to share an insurance fund much less requiring one to pay for the poor business decisions of the other.

In summary I strongly believe as we move forward and a solution is sought the corporate credit union model should be acknowledged, regulated and governed as a separate and distinct brand of financial institution having its own unique set of challenges that are vastly different from the natural person credit union industry. These differences require a different set of laws, regulatory expertise and an insurance fund which contemplates these differences and assesses accordingly.

Sincerely,

Joseph Kelly, CEO
S.T.A.R. Community Credit Union